Construction

Copacetic Foundations

OVERWEIGHT
(Maintained)

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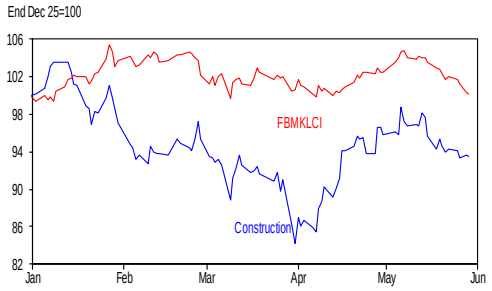
Highlights

- Malaysia's construction sector charted slower 1Q26 earnings, but better progress billings set the tone for stronger quarters ahead.
- Limited fundamental impacts from potential snap election as sector's growth engine shifted towards data centre and private or overseas job flows, reducing reliance on domestic mega projects.
- The sector upcycle is well supported by resilient DC job flows and tenderbook, with potential RM26b-30b of contracts to be awarded in the coming 1-2 years.
- Maintain OVERWEIGHT; top picks are Gamuda, Suncon, Binastra and IJM.

Analysis

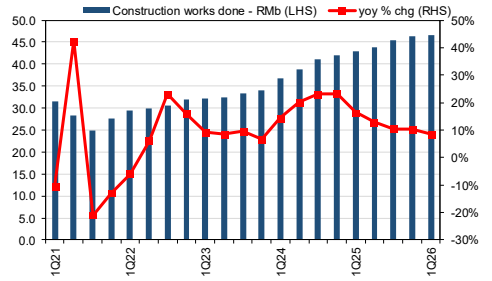
- **1Q26 results round-up showing mixed performances, better progress billing for rest of 2026.** Under our coverage, Sunway Construction (Suncon), Kerjaya Prospek and Binastra's results were within expectations, while Gamuda, IJM Corporation (IJM), Malaysian Resources Corporation (MRCB) and WCT underperformed. Despite the mixed 1Q26 results delivery, most of the companies continued to register better earnings yoy on the back of: a) accelerated progress billing, b) improved profit margins, c) robust orderbook in hand on sustained ytd job flows, and d) a pick-up in property sales.
- **Sector productivity on steady uptrend.** 1Q26's quarterly value of construction work completed has continued to trend up to RM46.4b (+0.2% qoq, +8.4% yoy). This represents the 18th qoq improvement in a row since 3Q21. The private sector remains the larger contributor with 65.6% of total construction works done in the quarter (+13.2% yoy). Geographically, Selangor, Johor, and Wilayah Persekutuan continue to represent the biggest contributors, at nearly 63.9% of the total works done in 1Q26.
- **Valuations appealing with resilient capital management upside.** While the construction index has retraced 15% from 2025's peak and 4% ytd, current valuations of the companies under our coverage (average 2027F PE of 17x) remain palatable given multi-year high orderbook and re-rating opportunities stemming from robust domestic liquidity. More importantly, the sector's balance sheet charted an improving trend over the last two years, following better earnings and cashflow conversion cycle. In line with yoy earnings growth, we anticipate a 3-7% dividend yield for stocks under our coverage, with room for better capital management.

Construction Index vs FBMKLCI



Source: UOB Kay Hian

Value Of Construction Works Done (as of 1Q26)



Source: Department of Statistics Malaysia, UOB Kay Hian

Sector Top Picks

Company	TP	Upside
Gamuda	5.25	19.3
Sunway Construction	7.88	5.1
IJM	2.48	27.3
Binastra Corporation	2.68	39.6

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Share Price 4 Jun 26 (RM)	Target Price (RM)	Market Cap (RMm)	PE FY25 (x)	PE FY26F (x)	PE FY27F (x)	ROE 2026F (%)	Price/NTA 2026F (%)	2026F Div Yield (%)
Binastra Corporation	BNASTRA MK	BUY	1.92	2.68	2,095.5	21.8	16.8	14.0	53.6	7.1	4.1
Gamuda	GAM MK	BUY	4.40	5.25	25,758.5	29.7	27.8	22.8	10.2	2.0	2.6
IJM Corporation	IJM MK	BUY	2.33	2.48	8,169.4	27.3	24.3	20.7	3.2	0.8	3.0
Kerjaya Prospek Group	KPG MK	BUY	2.19	3.20	2,753.5	16.9	15.8	14.3	21.1	2.1	5.7
Malaysian Resources Corp	MRC MK	HOLD	0.32	0.32	1,408.1	29.1	35.6	32.0	5.4	0.2	3.2
Sunway Construction	SCGB MK	BUY	7.5	7.88	9,915.0	23.9	23.4	22.0	56.9	10.9	6.5
WCT Holdings	WCTHG MK	HOLD	0.42	0.50	655.2	12.2	14.7	15.2	25.2	0.3	0.0

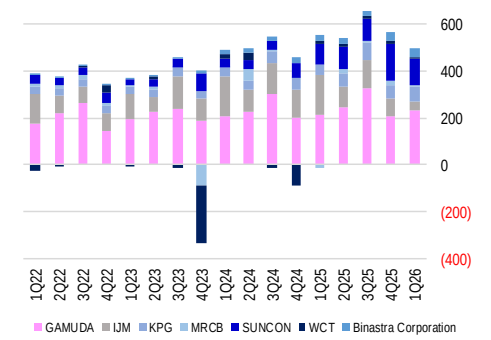
Sources: Bloomberg, UOB Kay Hian

- **Limited impact from upcoming general election.** The recent dissolution of Johor state assembly paves the way for a potential snap general election in 2026. We take the view that fundamental impacts towards the construction sector are fairly limited, given that awards of mega projects which provide crucial fiscal stimuli have seen a slowdown in the past three years due to the government's more conservative budget allocation. More importantly, the key engine driver for the sector's earnings growth shifted towards data centres and private or overseas job flows, reducing the sector's reliance on public infrastructure projects. While we do not rule out short-term jittery sentiment as investors' worries on the election outcome and political uncertainty build up, we note that the KLCON Index staged healthy rebounds of 30-40pts post-election in the 13th to 15th General Elections (GE13-15).
- **DC investments continuing growth, providing orderbook visibility for domestic contractors.** In 1Q26, Tenaga Nasional signed three electricity supply agreements (ESA) for DC projects with a combined electricity demand of around 800MW, bringing total electricity demand for uncompleted projects to around 3,800MW (total 8,300MW for 59 projects). While there are now 10 projects with ESA signed and yet to be awarded (combined 2,000MW electricity demand), we estimate that this translates into roughly 1,300-1,500MW of DC capacity, with an estimated RM26b-30b of contract value (based on RM20m per MW estimate) which may be awarded in the coming 1-2 years.
- **Impact from building material cost hike well buffered, but prolonged inflation may dampen profitability margin.** As at Apr 25, blended price increase for building material costs is about 3-4% due to the following: a) local steel bar prices have climbed 5% mom; b) steel wire mesh prices fell 2% mom; c) bulk cement prices were flat mom; d) bag cement prices dropped 8% mom; and e) premix grew 15% mom. While such impacts are still manageable especially for larger scale contractors due to variation-of-price (VOP) clauses, we opine that prolonged rising inflation may result in sector earnings falling 3-5%, which may be intensified if fuel subsidies are removed. We still prefer larger-scale contractors given their better ability to pass through cost increase into their new tenders.
- **Sector's 2026 earnings visibility still well backed by elevated outstanding orderbooks.** Recovering from the unprecedented sell-down stemming from the ongoing Middle East tensions, we expect the Malaysian construction sector to still deliver sequentially stronger earnings. This is largely underpinned by accelerated progress billing and improved profit margins from existing orderbooks secured over last 1-2 years. Our optimistic view on the sector is further supported by a huge pipeline of domestic infrastructure projects as well as an upswing in project rollouts from the private sector, particularly within the DC segment. We expect companies under our coverage to deliver an average earnings growth of 15-18% in 2026.

Valuation/Recommendation

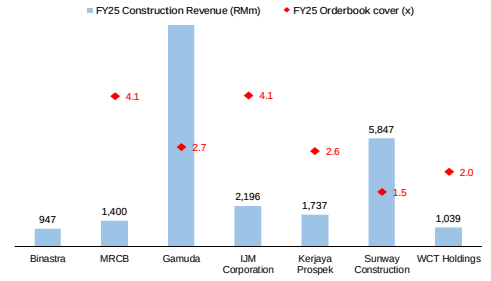
- **Maintain OVERWEIGHT on the Malaysian construction sector.** Despite the potential snap election and higher building material prices, the ongoing DC upcycle continues to provide multi-year earnings and growth visibility.
- **Our sector top picks** are Gamuda (BUY/Target: RM5.25), Suncon (BUY/ Target: RM7.88), Binastra (BUY/ Target: RM2.68) and IJM (BUY/ Target: RM2.48). We like these companies for their DC growth aspects and internal project visibility. Ratings and target prices of other stocks under our coverage are in the RHS table.

Construction Firms' Earnings Trend



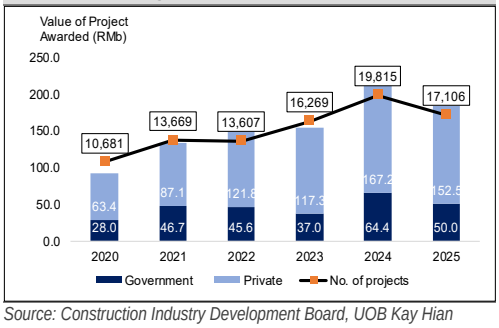
Source: Respective companies, UOB Kay Hian

Orderbook Comparison (as of Mar 26)



Source: Respective companies, UOB Kay Hian

Domestic Projects Awarded



Source: Construction Industry Development Board, UOB Kay Hian

Valuations And Target Price

Company	Ratings	Implied Valuations	Implied TP (RM)
Binastra	BUY	16.8x FY27F PE (mean)	2.68
Gamuda	BUY	22x FY27F PE (+1.5SD above mean)	5.25
Sunway Construction	BUY	22x 2026F PE (+1SD above mean)	7.88
IJM Corp	BUY	24.8x FY27F PE (+1SD above mean)	2.48
Kerjaya Prospek Group	BUY	15.8x 2026F PE (+1SD above mean)	3.20
WCT	HOLD	9.9x 2026F PE (slightly below mean)	0.50
Malaysian Resources	HOLD	33x 2027F PE (mean)	0.32

Source: UOB Kay Hian

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